

TANF recipients and 435 were with leavers, defined as those who had left the roles within the previous two years. Finally, to obtain a sufficient number of interviews to analyze separately, we also oversampled Hispanic households (123 interviews). Statistical weights are used to adjust for all oversampling.

III. A THEORETICAL PERSPECTIVE

Researchers have conceptualized the relationship between household consumption and debt from several perspectives. The life-cycle model from economic theory holds that households maximize their utility from consumption from one period to the next, according to their average lifetime income (Hubbard, Skinner, and Zeldes, 1994, p. 174). Households maintain a constant level of consumption by under-spending and over-spending from period-to-period based on variations in income around their lifetime average (Bae, Hanna, and Lindamood, 1993, p.13). There is no borrowing or debt accumulation in this world of perfect information, certainty about one's life span, and zero real interest rates. When current income falls below the expected mean, the household maintains an optimal level of consumption by living off its savings— withdrawing funds accumulated during periods of above-average realized income, and adding to savings when the opposite holds

Bae et al. discuss how, over time, economists have modified the life cycle model to allow for positive real interest rates, borrowing, and a measure of “household impatience”—which they refer to as the “valuation of the additional utility that spending beyond one's savings will produce in a given period” (1993, p. []). A household's optimal level of consumption will depend upon the relationship between the cost of borrowing and the subjective valuation of the additional utility gained from increasing consumption. The higher the real interest rate, the more a consumer will favor future consumption over present consumption; the more impatient the consumer, the more he or she will favor present consumption over future consumption, and increase borrowing (Bae, Hanna, and Lindamood, 1993, p. 13).